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# Building the Foundations for a Low Pollution, Clean Energy Economy

A Review of the *Clean Energy Future* Package

## 1. Introduction

The Southern Cross Climate Coalition (SCCC) is an alliance of the Australian Conservation Foundation, the Australian Council of Trade Unions, the Australian Council of Social Service and The Climate Institute. We are committed to reducing Australia's dependence on carbon pollution and promoting solutions to climate change.

The SCCC welcomes the *Clean Energy Future* package as a critical first step forward on climate change in Australia. The price on pollution and its complementary measures lay the foundation for reducing emissions and remaining competitive in the emerging global low pollution economy.

In November 2010 the SCCC outlined four foundations to drive a fair and inclusive transition to a low pollution economy. Here we present an assessment of the *Clean Energy Future* package against those foundations and against our April 2011 detailed policy platform for a low pollution economy.<sup>1</sup>

## 2. Stronger, Fairer and Healthier: SCCC Policy Foundations

The *Clean Energy Future* package goes a long way to providing robust foundations but more work is needed in some areas, as outlined below.

### 2.1. Reducing our economy's dependence on pollution

The *Clean Energy Future* package – including both the price on pollution and its supporting measures – will begin to unlock low pollution investments and discourage major new investments in highly polluting infrastructure. While not guaranteed, the package maintains the potential to achieve Australia's full range of pollution reduction targets and drive domestic emissions down within the next decade. Analysis by Treasury shows that over the period 2012 to 2020 the package has the potential to save up to 1.1 billion tonnes of pollution.

The pollution price – starting at \$23 per tonne in 2012 – will apply either directly or indirectly to around two-thirds of Australia's emissions. Importantly, the policy package includes the introduction of a firm limit on pollution in 2015, which will apply to around 60 per cent of Australia's emissions.

The introduction of a price and limit on pollution on its own is insufficient to drive the change needed for Australia to play its full role in keeping the global rise in temperature well below 2°C. However, the *Clean Energy Future* package also includes a range of complementary measures, which will be crucial in accelerating the domestic transition that is required over the coming decade. As

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<sup>1</sup> Details on the SCCC's four foundations and detailed policy platform can be viewed online at [http://www.climateinstitute.org.au/images/reports/sccc\\_foundations.pdf](http://www.climateinstitute.org.au/images/reports/sccc_foundations.pdf) and [http://www.climateinstitute.org.au/images/sccc\\_pp.pdf](http://www.climateinstitute.org.au/images/sccc_pp.pdf)

outlined in Section 3, the policies supporting energy efficiency, renewable energy and abatement in the land sector will be particularly important.

The SCCC also supports the creation of an independent Climate Change Authority with responsibility for recommending Australia's future limits on pollution, with reference to the science, long-term targets and international progress. If well designed, this new Authority has the potential to greatly improve the climate policy setting process, ensuring Australia contributes its fair share to global efforts.

## **2.2. Ensuring fair and inclusive action on climate change**

The SCCC has advocated for effective responses to climate change that are also equitable and engaging. We have sought to ensure that a price on carbon pollution does not further disadvantage low income households. The SCCC welcomes measures announced to provide assistance to households via changes to the transfer and taxation systems. These measures will provide financial assistance to cover the anticipated modest increases in costs flowing to most low and middle income households. The Government will index payments in line with price changes as usual, review the adequacy of assistance before the change from fixed to market price and provide a second round of tax cuts.

However, low income households typically spend a much higher proportion of their income on essential goods and services, particularly energy and food, that will be disproportionately affected by a price on carbon pollution. The assistance offered to some recipients of income support, in dollar terms, may be insufficient, initially and over time. The SCCC will closely monitor development of the package in legislation and as implemented to ensure that those least able to afford price increases are not burdened unfairly.

The package also provides \$130 million for trial energy efficiency programs in low income households through the Energy Affordability and Household Energy and Financial Sustainability Schemes. The SCCC welcomes the introduction of these trials as a first step toward investing in energy efficiency solutions that assist households with the impacts of the transition to a low carbon future.

## **2.3. Unlocking new clean energy jobs and industries**

Globally, the clean energy industry presents significant opportunities, with a record \$243 billion invested in 2010 and as many as 3 million people employed in the renewables sector. The SCCC has long advocated for policies that will enable Australia to tap into this booming global market, providing new income and employment opportunities for local businesses and workers.

The *Clean Energy Future* package provides unprecedented investment to unlock Australia's world class renewable energy resources and drive much greater action in energy efficiency, with the potential to create tens of thousands of new clean energy jobs. Importantly, the package also safeguards workers in emissions-intensive industries through targeted assistance to trade-exposed industries. This assistance will help traditional industries remain competitive while providing an investment signal to adopt best practice clean technologies.

The proposed \$10 billion Clean Energy Finance Corporation (CEFC), called for by the SCCC, holds much promise. If well designed, with the right investment mandate, the Corporation has the potential to see emerging large-scale renewable energy technologies deployed much earlier than will occur through market drivers alone. This will create new employment opportunities for Australian workers.

However, as outlined in Section 3, the SCCC remains concerned about several of the design features of the CEFC. We will continue to advocate strongly for an investment mandate that sees the full potential of the CEFC realised.

The SCCC also welcomes the commitment to investigate further the establishment of a National Energy Savings Initiative, which would require all energy retailers to help their customers become more energy efficient. Energy efficiency remains one of Australia's great untapped sources of low-cost pollution savings, as well as helping households and businesses manage rising energy bills. A well designed National Energy Savings Initiative would provide the backbone for Australia's burgeoning energy efficiency industry, which has strong employment prospects.

Another important industry development feature in the package is the decision to link the carbon price to the Carbon Farming Initiative. This, along with around \$700 million over six years to build capacity in the farm sector, will help to drive low pollution innovation and investment in the land sector.

#### 2.4. Strengthening global action

The two most important things Australia can do to support an effective global response to climate change is to get on with the job of cutting its own pollution while increasing support to developing countries to reduce their dependence on pollution.

The *Clean Energy Future* policy package provides a credible policy platform to achieve at least Australia's internationally committed 2020 pollution reduction targets. This will strengthen Australia's hand during the next round of negotiations in Durban, South Africa. It will ensure Australia can stand with other major emitting countries who are implementing domestic arrangements to meet their international commitments. This gives Australia the credibility it needs to ensure we are well placed to extract stronger commitments from other countries.

The *Clean Energy Future* package did not include any new commitments on how Australia will assist the world's poorest and most vulnerable countries to reduce pollution, protect their forests and manage the unavoidable impacts of climate change. In advance of the next round of international climate negotiations scheduled for Durban in December, it is important that the Government release a package of measures to meet Australia's international climate finance obligations.

### 3. Policy Platform for a Low Pollution Economy

The SCCC released detailed policy recommendations for a low pollution economy in May 2011. An evaluation of the *Clean Energy Future* package against the SCCC recommendations follows.

SCCC Policy Recommendation	<i>Clean Energy Future</i> Plan	SCCC Response
<b>Limit and price on pollution</b>	<ul style="list-style-type: none"> <li>The scheme will start at \$23/tonne from 1 July 2012, with two-thirds of emissions covered either directly or indirectly.</li> <li>The scheme moves to cap-and-trade emissions trading on 1 July 2015, with the cap covering around 60% of Australia's emissions.</li> <li>Caps will be set by the independent Climate Change Authority toward a legislated 80% reduction target by 2050.</li> </ul>	<ul style="list-style-type: none"> <li>The SCCC supports the clear and stable framework to put a price on pollution and move to a capped emissions trading scheme within 3 years set out in the package.</li> <li>We also strongly support the default cap mechanism built into the legislation to ensure Australia begins to reduce emissions from 2015 regardless of political agreement.</li> <li>The SCCC maintains that the scheme should apply to the broadest possible section of the economy and calls for a timeline for the inclusion of uncovered sectors.</li> <li>The introduction of the Climate Change Authority is important to ensure the scheme's integrity.</li> </ul>
<b>Industry assistance</b>	<ul style="list-style-type: none"> <li>The \$9.2 billion Jobs and Competitiveness Program will assist</li> </ul>	<ul style="list-style-type: none"> <li>The Jobs and Competitiveness Package provides important assistance to industries</li> </ul>

	<p>emissions intensive trade exposed industries. The program includes regular reviews, beginning in 2014-15.</p> <ul style="list-style-type: none"> <li>• In addition, the Plan includes assistance to the steel industry and particularly gassy mines valued at \$300 million and \$1.3 billion respectively.</li> <li>• A \$1.2 billion Clean Technology Program will be established to help improve energy efficiency in manufacturing and support R&amp;D in low pollution technologies.</li> <li>• \$200 million is allocated to assist communities strongly affected by the introduction of a price on pollution.</li> </ul>	<p>and maintains investment signals for low pollution investments.</p> <ul style="list-style-type: none"> <li>• The SCCC supports regular reviews by the Climate Change Authority and the Productivity Commission, beginning with a review in 2014-15 with a view to moving to a principled approach to assistance as the real and implicit pollution prices increase in competing economies.</li> <li>• The SCCC welcomes the establishment of the Clean Technology Program to encourage traditional industries to adopt best practice low emission technologies.</li> <li>• SCCC supports the \$200 million to assist workers and communities that are disproportionately impacted by the carbon pollution price.</li> </ul>
<p><b>Household assistance</b></p>	<ul style="list-style-type: none"> <li>• Modelling of the package predicts an increase in the cost of living of 0.7% over the first year, 2012-13, and a further 0.2% in 2015-16.</li> <li>• An ‘average’ household will experience cost increases of about \$10 per week.</li> <li>• The package supports households through changes to the taxation and transfer systems that will deliver assistance to 9 in 10 households.</li> <li>• About 7 in 10 households will receive assistance in excess of the impact modelled for their household type (i.e. there will be a ‘buffer’ above the modelled impact).</li> <li>• Changes to the taxation system will remove the requirement to lodge tax returns from more than one million workers.</li> <li>• Payments through the transfer system (including pensions and allowances) will be increased commensurate with modelled impacts for various household types.</li> </ul>	<ul style="list-style-type: none"> <li>• The SCCC welcomes measures proposed to assist households with cost of living increases resulting from the introduction of a price on carbon pollution.</li> <li>• The SCCC welcomes the proposed simplification of the taxation system as a step towards a more efficient and effective system.</li> <li>• The SCCC remains concerned that cost of living impacts may be higher than modelled for very low income households that typically spend a much higher proportion of their income on essential goods and services that will be disproportionately affected by a price on carbon pollution. Therefore we welcome the commitment to regularly review the adequacy of assistance including before the scheme moves to a cap-and-trade system.</li> </ul>
<p><b>Energy efficiency</b></p>	<ul style="list-style-type: none"> <li>• The Low Carbon Communities program will be enhanced and extended and provide support for not-for-profit community service organisations to improve energy efficiency.</li> <li>• Low income households will be assisted through the \$100 million Energy Affordability Scheme and the \$30 million Household Energy and Financial Sustainability Scheme. Both trials will run from 2012 to 2016.</li> <li>• The Government has committed to investigate the establishment of a National Energy Savings Initiative, with a final decision to be made in 2012.</li> </ul>	<ul style="list-style-type: none"> <li>• The SCCC recognises the increase in energy efficiency investment for local government and community organisations for investment. However, these initiatives should be understood as foundations for more substantial investment in the future.</li> <li>• The SCCC welcomes the new trial programs as small steps in the significant project to meaningfully enhance energy-use efficiency in the homes of low income and disadvantaged Australians.</li> <li>• We support fast-tracking the development of a National Energy Savings Initiative but urge the Government to commit to a starting date for the scheme in early 2012.</li> </ul>

<b>Clean energy innovation</b>	<ul style="list-style-type: none"> <li>The package establishes a \$10 billion Clean Energy Finance Corporation (CEFC) to invest in the commercialisation and deployment of clean energy technologies.</li> <li>The \$3.2 billion Australian Renewable Energy Agency (ARENA) will be established as a new independent agency to oversee support for research and development, demonstration and commercialisation of renewable energy technologies.</li> </ul>	<ul style="list-style-type: none"> <li>The SCCC strongly supports the establishment of the Clean Energy Finance Corporation to unlock significant investment in the clean energy industry and create jobs.</li> <li>It is vital that the CEFC is provided with adequate tools and risk appetites to ensure that barriers to investment in emerging clean technologies are removed and drive long-term growth in renewable energy and energy efficiency technologies. The SCCC looks forward to engaging with the CEFC Chair throughout the development of the Corporation's mandate.</li> <li>The SCCC also welcomes the establishment of ARENA to administer funding for research and development of clean technologies.</li> </ul>
<b>Emissions performance standards for new generators</b>	<ul style="list-style-type: none"> <li>The package did not include an emissions performance standard for new electricity generators.</li> <li>Subsequently Minister Ferguson has announced that the Government's election commitment to introduce a standard will be reviewed.</li> </ul>	<ul style="list-style-type: none"> <li>The SCCC remains strongly supportive of the introduction of a mandatory standard for new generators. It is disappointing to see this policy is now up for review.</li> <li>The Government should re-affirm its election commitment to have a standard in place by 2012.</li> <li>We would welcome the opportunity to revisit the proposed standard to ensure it is consistent with Australia's new long-term goal of reducing emissions by 80 per cent by 2050.</li> </ul>
<b>Emissions standards for vehicles</b>	<ul style="list-style-type: none"> <li>The Government has reaffirmed its commitment to introduce mandatory vehicle emission performance standards in 2015.</li> <li>The starting point for the emissions standard will be negotiated with industry and other stakeholders.</li> <li>The Government has also made a commitment to review the standard within two years of its initial implementation.</li> </ul>	<ul style="list-style-type: none"> <li>The SCCC welcomes the opportunity to continue discussions with the Government and will continue to push for an emissions standard consistent with international trends, and support for the industry as it adopts the new standard.</li> </ul>
<b>Carbon farming and landscape resilience</b>	<ul style="list-style-type: none"> <li>The Carbon Farming Initiative will be fully linked to the carbon price to maximise opportunities for abatement in the agricultural sector.</li> <li>\$700 million will be available for carbon farming research, development, training and extension over 6 years.</li> <li>The Biodiversity Fund will provide \$1 billion over 6 years for restoring and maintaining the health of natural ecosystems to lock carbon in the landscape.</li> </ul>	<ul style="list-style-type: none"> <li>Linking the Carbon Farming Initiative to the carbon price scheme will provide a strong and healthy market for carbon abatement on the land, ensuring our agricultural sector can profit from pricing pollution.</li> <li>The SCCC welcomes the strong support package for extension and research in the agriculture sector. This initiative will ensure ongoing opportunities for climate solutions in Australia's land sector.</li> <li>The Biodiversity Fund is a historic step forward in protecting the capacity of natural ecosystems to act as a carbon store and is strongly supported by the SCCC.</li> </ul>